

Agricultural Trade

Taiwan's Trade Barriers to Recede With WTO Accession in Sight

Taiwan, under the recently negotiated provisions of its pending membership in the World Trade Organization (WTO), has committed to market access terms with implications for agricultural trade with all WTO member nations—particularly the U.S. On September 18, just one day after the WTO approved the terms for China's entry, it concluded negotiations on the terms of membership for Chinese Taipei (the WTO's working name for Taiwan). This paved the way for formal endorsement of the accession package by the 142 member governments of the WTO, which is expected to hold its 4th Ministerial Conference in Qatar, November 9-13, 2001.

The U.S. has for decades been the leading supplier for Taiwan's agricultural imports, with a market share of about one-third. Taiwan, long a top-ten market for overall U.S. farm exports, was the fifth-largest single market for U.S. exports of crop and livestock products in 2000, purchasing \$2 billion.

To enter the WTO, Taiwan agreed to concessions and commitments that are equivalent to those made in the WTO Agreement on Agriculture by developed-country members. Taiwan's agricultural tariffs will be reduced. The simple average of rates across all tariff lines for agricultural products will fall from the current level of 20.02 percent to 14.01 percent in 2002 and to 12.86 percent in 2004. This can be achieved in many ways, with deeper cuts for some tariff lines and smaller (or even zero) cuts on other tariff lines, as long as the average meets the target.

As for the 41 agricultural items currently subject to various forms of nontariff barriers, Taiwan will lift its ban on rice imports, establish tariff-rate quotas (TRQs) for another 22 items, and allow imports of the remaining 18 agricultural items without restriction (except for tariffs).

These 18 products include apples, grapefruit, potatoes, plums, whole ducks, duck parts, turkey parts, peaches, and citrus fruits. Currently, imports of many products in this category are subject to preferential access by country of origin, particularly favoring the U.S. During Taiwan's lengthy WTO membership negotiations, which started in 1992, major points of controversy were market access for rice and for the 22 items with newly assigned TRQs.

Upon WTO accession, Taiwan will allow rice imports through a minimum market access quota set at 144,720 tons (brown rice basis and tariff-free), which is about 8 percent of domestic consumption in the base-year period 1990-92; the final terms of rice imports will depend on the outcome of future WTO negotiations.

The 22 TRQ products include pork bellies, chicken meat, animal offal (pork and poultry), fluid milk, peanuts, red beans, garlic bulbs, and some fruits and vegetables (mostly subtropical and tropical). A schedule of reductions in the in-quota tariffs and the increases in the size of quotas has been stipulated up to 2004. In addition, TRQs will be eliminated by January 1, 2005 for some products, including chicken meat, pork bellies and other pork cuts, and animal offal. The TRQs will be replaced by simple tariffs of 20 percent for chicken meat, 12.5 percent for pork bellies and other pork cuts, 15 percent for pork offal, and 25 percent for poultry offal.

In February 1998, Taiwan signed a market access agreement with the U.S. that included both immediate and phased-in commitments. Immediate commitments included provisions for tariff reduction on many consumer-ready products and the importation of U.S. potatoes, chicken meat, beef offal, pork offal, and pork bellies under so-called down-payment quotas that went into effect in June 1998. In July 1999, Taiwan granted additional quotas of the four meat categories to non-U.S. WTO members.

Then, in 2000, Taiwan merged these U.S. and non-U.S. quotas into a global quota open to all WTO members. The total global quotas, totaling 19,163 tons for chicken meat, 6,160 tons for pork bellies, and 10,000 tons for pork offal, are the level agreed upon for year one of Taiwan's WTO accession. Beef offal imports will be liberalized upon accession.

Imports to Increase for Consumer-Ready Farm Products

These trade commitments will force Taiwan to open its highly protected agriculture sector wider than ever before, providing a new market opportunity for exporters. The effects of Taiwan's WTO accession on global trade, however, will be mainly on consumer-ready agricultural items.

Except for rice shipments, Taiwan is basically a mature market for most bulk and intermediate imports, with low tariffs and generally minimal nontariff barriers. The current tariffs are zero percent for both cotton and soybeans, 0.5 percent for corn, and 6.5 percent for wheat. In contrast, the tariff rate for wheat flour is 20 percent, while many consumer-ready agricultural products such as fresh fruits and processed products often face import duties of up to 50 percent *ad valorem*.

The full effect of Taiwan's WTO accession will not be felt until at least after 2004, when some products that are under TRQs will be fully liberalized. In the short run, quotas on many products will restrict their import growth potential.

For example, the quota for chicken meat starts at 19,163 tons upon accession, rising to 45,990 tons in 2004 before being fully liberalized on January 1, 2005. The quota accounts for only 5 to 12 percent of domestic consumption in the 1990-92 base-year period. Because Taiwan depends almost totally on imports of feedstuff for its livestock and poultry production, any gains to exporters from increased meats and animal offal trade would be offset to some degree by a drop in exports of corn and soybeans to Taiwan.

Briefs

Taiwan: A Major Market for U.S. Farm Exports

Taiwan, 22 million people on a mountainous island slightly smaller than Maryland and Delaware combined, has been an important market for U.S. agricultural exports since the 1970s. A minor importer before the 1970s, Taiwan broke the \$1 billion mark in imports from the U.S. for the first time in 1979, and the \$2 billion mark in 1993, reaching nearly \$3 billion in 1996 before dropping to an average of \$2.1 billion during 1997-2000.

The lingering effects of the sudden outbreak of foot-and-mouth disease in Taiwan's huge hog industry in early 1997 (*AO* October 2000) substantially reduced Taiwan's import demand for feedstuff such as corn and soybeans. Taiwan, however, was the fifth-largest U.S. overseas farm market in 2000, after Japan, Canada, Mexico, and South Korea, purchasing \$2 billion.

Taiwan's agricultural imports are mainly bulk commodities and processed intermediate products—used mostly as raw materials for the domestic livestock, wheat flour, and export-oriented textile and leather goods industries. Over the years, however, the role of these bulk and intermediate products in Taiwan's agricultural import mix has declined, while the proportion of imports for consumer-ready products has increased.

Consumer-ready products such as apples and meats accounted for less than 3 percent of U.S. farm exports to Taiwan before 1978 but increased their share to 19 percent in 1990-96, and reached 27 percent during 1997-2000.

Taiwan's agricultural imports, despite their increasing diversity, continue to be dominated by bulk and intermediate agricultural products. In 2000, coarse grains, soybeans, feeds and fodders, hides and skins, wheat, and cotton accounted for \$1.3 billion, or more than two-thirds of U.S. farm exports to Taiwan.

U.S. Exports to Gain, But Challenges Ahead

As Taiwan opens its market further for agricultural imports, it has the potential to continue as one of the fastest growing markets for U.S. farm products, and consumer-oriented agricultural items should benefit the most.

With Taiwan's WTO accession, however, new challenges arise for the U.S. Upon WTO accession, Taiwan will end the formal preferential treatment given to several categories of U.S. agricultural exports. For example, Taiwan currently allows fresh fruit from the U.S. to enter without any quantitative restriction, while fresh fruit from most other countries is either banned or subject to quotas. Upon WTO

accession, Taiwan will grant these countries import permission as long as their products meet Taiwan's phytosanitary and other rules. These "new-to-market" competitors will pose a potential major challenge to U.S. dominance in Taiwan.

Among those potential newcomers, one country stands out—China. Thus far, for political reasons, Taiwan permits only a limited number of agricultural products to be imported from China, and then only by first passing through Hong Kong or third-country ports. Generally these products have not competed directly with Taiwan's domestic products or U.S. exports. Without a ban on imports, many Chinese products, particularly fruits and vegetables, would be highly competitive because of China's low production costs, geographic proximity to Taiwan (separated only by a 130 km-wide strait), and similarity in food tastes on both sides. Although the WTO will open up new horizons in cross-strait relations, it will take time to sort out the implications for trade.

Taiwan, already a major food importer with little arable land, will import even more as domestic agriculture declines, trade policies are relaxed, and demand from the island's affluent consumers intensifies. In addition to its importance as a destination for primary bulk and processed intermediate commodities, Taiwan will be an even more dynamic market for a whole range of high-value consumer products. With Taiwan's import demand growing, the short- and long-term prospects for U.S. agricultural exports to Taiwan remain favorable. **AO**

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